

CALFED BAY-DELTA PROGRAM

Memorandum

Date: June 16, 1996

To: Lester Snow
Program Team

From: Zach McReynolds

Subject: Phase II Plan of Finance Development

Basis of Phase II Approach

By the end of Phase II, stakeholders need to feel comfortable with the Plan of Finance for the long term solution *at the programmatic level*. Programmatic level means that they *will not* know specific costs, cost allocations, or the precise mix of the revenue sources and financing techniques that will be applied to the meeting the costs of specific projects to be identified in Phase III. They *will* have a clear picture of the way in which decisions concerning these issues will be made, and what the options are for implementation of the Plan of Finance.

In order to reach this level of comfort, stakeholders must reach the following fundamental conclusions related to Solution Principles:

- The amount they will pay will be reasonable and acceptable relative to the benefits they are gaining from the solution(Affordable).
- The amount they will pay will be reasonable and acceptable relative to the amounts being paid by others(Equitable).

Plan of Finance

Reaching these conclusions will require stakeholders to have a detailed understanding of all facets of the Plan of Finance. During Phase II, the plan would be to move through the series of topics one at a time, developing detail in each area and issuing a white paper for each as it is examined thoroughly. Technical issues would be addressed by Program staff and consultants. Policy issues would be discussed by BDAC work groups, BDAC, CALFED, and the stakeholder community. The topics are listed below with a brief description of the questions that need to be addressed:

- Who:
 - ⇒ Who is going to participate in paying for the long term solution? How will groups be defined? First, define public versus private sector participation. Eventually, clearly identify and define all participating sectors.
- What:
 - ⇒ What types of costs will they be paying for? First, identify and define the basic cost types: capital, annual, O&M. What other types of costs are implicit: local costs, etc.? Eventually, quantify costs by type and time.
- How:
 - ⇒ How will the revenue be raised? First, identify what the options are for each sector to develop revenues to support the basic cost types. Eventually, evaluate option choices and determine where new sources must be implemented. Interface with Water Use Efficiency is necessary, to examine effects of revenue choices on incentives, and opportunities to create new incentives.
- Where:
 - ⇒ Where will the payments go? Answering this question involves an interface with the assurances/institutions process, which will be providing the fundamental institutional structure. First, identify what the institutional structure must provide to meet financing needs. Eventually, determine how financing structure can implement or support assurances.
- When:
 - ⇒ When will the funds be paid? First, identify rough phasing sequence. Eventually, provide schedule of timing of payments by type, including effects of debt issues, financing techniques.
- Why:
 - ⇒ Why should the sectors pay? This question is directed at the cost allocation process. First, what is the basis of the cost allocation? Eventually, what objectives are met; what benefits are accrued? Depends on performance evaluation of actions.

Policy Issues

Although some policy issues will not become apparent until the topics are further developed, certain policy questions can be anticipated. These questions should be the focus of discussions for the BDAC work group.

- Who:
 - ⇒ Basic public/private participation. How far should we look for who should be included in paying for the solution? Fishing, recreation, rural counties?
- What:
 - ⇒ Should alternative approaches be used, such as privatization or price incentives? Should indirect or non-financial costs be considered? Requires coordination with efficiency discussions.
- When:
 - ⇒ Should timing assistance be provided when requirements are difficult to meet (ie

credit or deferred programs)?

- Where:
 - ⇒ Most of the institutional policy questions are relevant here. Requires coordination with assurances discussions.
- How:
 - ⇒ Should new fees or charges be implemented? Which ones? Requires coordination with efficiency discussions.
- Why:
 - ⇒ Basis of allocation method? Ability to pay consideration? Cost allocation principles, policy, and methodology.